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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
SEPTEMBER 3

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#### MACRO PICTURE GETTING CLOUDIER

11. (U) For the first time, on 9/5/07, Economy and Finance  
Minister Solbes conceded that there was more "uncertainty"  
about prospects for the Spanish economy, although he was  
quick to add he still thinks that Spain will grow by "close  
to" 3% in 2008, which is still higher than the eurozone  
average. Consistent with Zapatero's preferred upbeat  
disposition, the Spanish president met with Santander CEO  
Botin on 9/6/07, and both men agreed the Spanish banking  
sector was well positioned to withstand the fallout from the  
U.S. subprime mortgage problem. However, the press continues  
to publish stories indicating a slowdown in the housing  
market. There are more human interest stories about people  
having problems coping with their adjustable rate mortgage  
payments, which are rising rapidly as a result of increased  
Euro interest rates; on average, Spaniards already devote  
almost half their income to mortgage payments. Moreover, the  
number of new unemployed people in August, 2007 was about  
twice as high as in August, 2006, putting a further damper on  
economic optimism. The Ibex-35 rose by 0.76% on Monday and  
Tuesday but then dropped by a sharp 2.4% on Wednesday. On  
Thursday, there was a modest fall of 0.29%. As of midday,  
Friday, September 7, the market is down by almost 1%.  
(Comment: The European Central Bank's decision Thursday not  
to raise interest rates again should provide a boost to the  
Spanish economy. However, there is no doubt that something  
is beginning to change in people's views about the economy.)  
(All media)

#### NEW MORTGAGES DECLINING; EVIDENCE OF HOUSING MARKET SLOWDOWN

12. (U) Almost 3% fewer mortgages were signed in the first  
half of 2007 compared with the first half of 2006, but the

average mortgage amount is up by 6%. This is the first time in six years that the number of new mortgages declined, which is being interpreted as evidence of a slowdown in the housing market. In an effort to calm fears of a "hard landing," the new Housing Minister, Carme Chacon, has been saying that European Central Bank (ECB) interest rate hikes have probably neared their peak. In another housing related story, Autonomous Community of Andalusia President Manuel Chaves promises to provide housing to all who earn less than 3,100 euros a month as a "right". Economy and Housing Minister Chacon supported the idea, but Finance Minister Solbes expressed doubts about the initiative. (Comment: Chacon's statements on interest rates are speculative, of course, as the ECB sets interest rates independently. Solbes' statement on the Chaves housing initiative is not the first time he has expressed public disagreement with another minister. As the elections approach, he will find increasing demands for spending. (El Pais, 9/4/07, all media)

#### EMPLOYMENT NUMBERS WORSENING, DEFINITIVE DATA NOT AVAILABLE

13. (U) Unemployment was 7.95% as of June 30, 2007, the lowest unemployment figure during the last 30 years. However, since then there have been reports of layoffs in the construction sector. Also, in August, 2007 the number of new registered unemployed people was almost 58,000. In August, 2006, there were about 27,000 new registered unemployed individuals. (Comment: The doubling of this year's August unemployment figure has been interpreted as a sign of possible future bad news on the employment front. The data are not definitive, but it may turn out that a 7.95% unemployment rate remains the best record on unemployment for a while. In July 2007, EU unemployment was 6.8% and the eurozone unemployment rate was 6.9%. These numbers are better than Spain's, but what often matters politically is trends and Spanish unemployment has been trending downwards for some time, contributing to the country's optimism. Should the trend reverse, economic

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psychology could change.) (El Pais, 9/5/07)

#### MEETING WITH MINISTRY OF INDUSTRY SUBDIRECTOR GENERAL FOR EU TRADE POLICY

14. (U) EconCouns and EconOff meet with Ministry of Industry Subdirector General for EU Trade Policy. We delivered the IPR Special 301 demarche, expressed interest in working on an import safety dialogue, inquired about EU China textile safeguards, and urged settlement of the Rosalini case (separate reporting on these issues to come). Our Industry contact said Spain would be interested in sharing ideas on import safety and noted that his ministry was now more active in this regard, as well as the Ministry of Health's Consumer and Safety Commission. He expressed concern about future container scanning requirements and the possible extraterritorial dimension of U.S. Iran financial sanctions. He listened to what we had to say about Rosalini, but noted that the Spanish legal system allowed for criminal charges to be filed by Autonomous Community governments. (9/5/07 meeting).

#### UN CONVENTION TO COMBAT DESERTIFICATION

15. (U) In conjunction with its sponsorship of the U.N. Convention to Combat Desertification conference taking place in Madrid this week and next, the GOS announced that its contributions to the U.N. to combat desertification since 2001 total more than 155 million euros. Since 2004, the GOS has increased its level of support, particularly through projects in African countries including Morocco, Tunisia, Algeria, Mauritania, Senegal and Guinea-Bissau. In her speech to open the conference, Environment Minister Cristina Narbona emphasized the obligation developed nations have in doing more, particularly given their causal role in global climate change and its effect on water depletion and deforestation. (NOTE: The USG is also a party to the

convention, and a USG delegation is participating in the conference in Madrid. END NOTE). (GOS, 9/5/07).

GOS TO APPEAL EC DECISION TO FINE TELEFONICA?

¶6. (U) Media reports indicate that GOS is seriously considering appealing the July European Commission decision to fine Telefonica 152 million euros for anti-competitive pricing practices. The appeal would be based on complaints put forth by Spain's Telecommunications Market Commission (CMT), which argues that the EC ruling infringes on the competencies of member states' regulatory bodies. The CMT, which approved the Telefonica rates that the EC later found to be "anti-competitive," adds that if the EC ruling holds firm, it may undermine the CMT's ability to act as a credible regulatory body in the future. The CMT has further complained that Brussels failed to include Spain's regulatory body in its preliminary investigations against Telefonica, violating principles of cooperation between member states and the EC. Telefonica, in its role of majority operator of wide-band service, was reportedly charging prices that were too high to allow rivals to obtain reasonable profits and compete fairly in that market.

ALGERIA'S SONATRECH TERMINATES MULTI-BILLION DOLLAR CONTRACT WITH SPANISH GAS COMPANIES

¶7. (U) Algerian parastatal gas company Sonatreh recently terminated a multi-billion euro gas development contract with Spanish companies Gas Natural and Repsol, saying that the Spanish companies were responsible for excessive project delays. The decision, which caused stocks of both companies to fall significantly, has received prominent local press coverage over the past week and has raised questions about the role the GOS should have played in its interactions with Algeria.

¶8. (U) Representatives from opposition Partido Popular have argued that the Zapatero Administration has not been sufficiently supportive of the Spanish gas companies and add that GOS' policy towards Algeria on natural gas has been too conciliatory. For their part, GoS officials have attempted to express disapproval for Sonatreh's decision while distancing themselves from the dispute. Algeria is Spain's largest supplier of natural gas, supplying almost a third of Spain's consumption.

GERMANY'S EON TO ACQUIRE ENERGI E2 RENEWABLES IBERICAS FOR 722 MILLION EUROS

¶9. (U) Germany utility company E.ON, which lost its previous MADRID 00001734 003.2 OF 003

bid to acquire Spanish power company Endesa, has agreed to acquire Energi E2 Renewables Ibericas (E2-I) for 722 million euros. E2-I operates wind farms in Spain and Portugal that currently generate 260 megawatts of electricity. The move is seen as an effort by E.ON to achieve a balanced portfolio of power generating assets by diversifying into renewable projects. This acquisition, along with the announced purchase of Spanish power utility Viesgo, positions E.ON as the fourth largest company in Spain's power market. (Energy Business Review Online, 9/5/07)

TWO SPANISH WOMEN MAKE THE FORBES 100 LIST

¶10. (U) Ana Patricia Botin, chairwoman of Banesto bank, and Rosalia Mera, co-founder of the Inditex textile empire, ranked 40th and 76th, respectively, in this year's Forbes magazine's list of The World's 100 Most Powerful Women. Botin is considered front-runner to succeed her 72-year-old father Emilio as chairman of Grupo Santander when he retires. Rosalia Mera is a philanthropist active in the real estate sector, and her personal wealth is estimated at over 1.2 billion euros. (El Pais) AGUIRRE